

**RECOMMENDATION 7:** *Act as an informed consumer in purchasing and procuring goods and services.*

The State spent over \$1 billion on procuring goods and services in fiscal year 1991. With our tight budget, we must act as prudent consumers, demanding quality, comparison shopping, and using our buying power to leverage our

THE STATE IS A MAJOR CONSUMER OF GOODS & SERVICES	
THE TOP FIVE COMMODITY PURCHASES BY STATE GOVERNMENT IN FISCAL YEAR 1991:	
Computer Hardware	\$ 85 Million
Vehicles	\$ 85 Million
Food	\$ 50 Million
Fuels	\$ 50 Million
Furniture	\$ 25 Million

(EXHIBIT 13)

Source: Purchase and Contracts Division, N.C. Department of Administration

resources in the marketplace. Even slight changes in the way we do business, through improved technology, competitive bidding practices and better warehousing practices will produce significant savings for our taxpayers that can be reallocated to more pressing needs. We recommend that the General Assembly:

- Increase the use of single prime contractors on capital projects.
- Increase contracting out opportunities to private sector vendors.
- Put in place innovative procurement practices, such as on-line purchasing.
- Reduce the length of time required to procure goods and services.
- Eliminate the requirement for mandatory use of term contracts.

## A GOVERNMENT FOCUSED ON BETTER WAYS TO SERVE CITIZENS

State government exists to serve citizens.

Our mission is to provide North Carolinians with services that would otherwise be unavailable, to act as a safety net for that portion of our society

*"We have attempted to identify areas of change we believe will improve government, thus resulting in better service to our customers, the citizens of North Carolina."*

North Carolina  
Society of  
Certified Public  
Managers

which is at risk, to ensure a level playing field for individual opportunity, and to protect all citizens from harm. In short, the State is the instrument by which we act together for the common good.

Over the last year, the Government Performance Audit Committee has looked at some of the major areas where the State, with its \$13 billion of resources and thousands of employees, touches citizens' lives. We have found that this interface between the government bureaucracy and the child, the elderly, the needy, the disabled, the prisoner or the farmer is not connecting as well as we want it to. Improving such interfaces is the goal of recommendations included in this section of our report.

The single most important arena where government and citizens interact is education. Every North Carolinian will be affected by the State's educational system in one way or another. Recognizing its importance, our Committee has paid particular attention to education and will cover recommendations in this area separately.

New models for citizen service are also needed in human resources, Medicaid, corrections, law enforcement and transportation, as outlined in the recommendations below. By thinking in new ways, planning on a statewide basis and using our resources more creatively, we can balance our responsibility to provide quality services with our need to provide cost-effective services.

These new strategies include better use of private sector resources to support and deliver citizen services, where appropriate. While our Committee does not believe that privatization is the answer to all government needs, we have considered increased roles for the private sector in particular areas as transportation, human services and data processing.

Medicaid presents a particular challenge for our future. Climbing at the alarming average rate of 20% per year, it is the single fastest growing element of the State budget, and the element least subject to our control. Medicaid is an essential safety net for those otherwise unable to pay for health care, or to supplement services for disastrous health situations. However, unless the costs of providing this assistance are contained, the State will be unable to accomplish many of the other things we want to do. Our Committee has made several recommendations to keep all Medicaid services available, but reduce the rate of increase of these costs.

In investigating human resources, corrections, law enforcement, transportation and other services, we found an underlying theme that is inconsistent with successful strategies for the 1990s. North Carolina has invested heavily over the years in bricks and mortar. We now have:

**The State is the instrument by which we act together for the common good.**

*"There is a cost to political expediency. There is a cost to having a community college in every county, a prison in nearly every county."*

Representative  
Daniel T. Blue, Jr.  
Speaker of the  
North Carolina  
House of  
Representatives

- 91 prisons, more than any other state
- 77,000 miles of roads and highways, the largest system in the nation
- 58 community colleges with 85 campuses, more than any state except California
- 16 constituent universities in the University of North Carolina system
- 15 institutions in the Division of Mental Health, Developmental Disabilities and Substance Abuse

There was a time when North Carolina, like many other states, responded to needs by building a facility or a road. This may once have been an effective strategy, but our Committee believes that the era of government facility-building is past.

The difference is that we're in a period of constant rapid change, and bricks and mortar are fixed. As our population, technologies and needs change, configurations to provide services may change. In recent years we've seen moves from inpatient to outpatient medical care, from incarceration to innovative parole techniques, from residential to community-based services, from building new roads to recycling asphalt to maintain existing ones, from traditional approaches to alternatives we haven't yet thought of.

In short, our delivery systems must be responsive, flexible, transportable—even interchangeable. They can no longer be locked into a physical location.

One of the reasons North Carolina has overinvested in bricks and mortar in the past is the concept of uniformity, which means that local government and business leaders have sought and gained the same facilities as neighboring counties or cities. In the future, government leaders will have to act less parochially. The new model calls on us to address citizens' needs compassionately, but does not demand that a similar facility exist in every county or region.

We are going to continue to fulfill our mission of serving citizens as we move into the 1990s, but we're going to do it differently—and we're going to do it faster and better. The Government Performance Audit Committee believes these changes will pave the way:

**RECOMMENDATION 8:** *Shift the emphasis of human resource programs from institutional to community-based.*

Institution-based care is not always the most compassionate nor the most cost-effective means of serving the mentally infirm, developmentally disabled or those suffering from alcohol and drug abuse. Consistent with the national trend and the State policy toward providing services in the least restricted environment, we will have to change the way the State delivers services.

**Our delivery systems must be responsive, flexible, transportable—even interchangeable. They can no longer be locked into a physical location.**

*"Beneficent provision for the poor, the unfortunate and the orphan is one of the first duties of a civilized...state."*

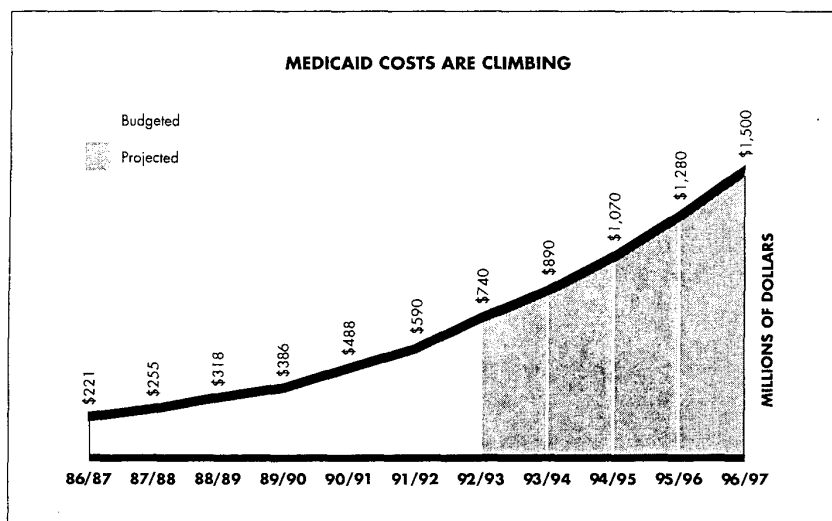
Constitution of North Carolina

North Carolina must move away from the operation of large institutions toward the expansion of innovative new community-based solutions. In doing so the State will find, as have other states, that clients are happier, families are more satisfied and services cost less. As a result, the State will be able to downsize old, labor-intensive, large State institutions and replace them with smaller, more efficient ones, for a net savings of \$97 million over the next 10 years. We recommend that the General Assembly:

- Direct mental health resources toward enhancing community-based alternatives, by creating 150 community-based slots and replacing large mental health hospitals with smaller, more efficient units. Implement a single stream of funding for mental health care to allow the State's Area Programs to purchase services for clients from all available treatment providers, including the State mental institutions. This strategy will focus accountability with the Area Programs, promote competition among providers and ensure quality care.
- Establish a clear commitment to reduce the size of the five State-operated mental retardation centers, beginning with an aggressive plan for reducing admissions. Change North Carolina's status as 36th of 48 states in the scope and size of its Medicaid waiver, by expanding use of Medicaid home and community-based waivers.
- Implement a single stream of funding concept for alcohol and substance abuse treatment, enabling the Area Programs to purchase services from local private providers or the State Alcohol and Drug Abuse Treatment Centers (ADATCs). This will help the State reduce waiting times and costs for treatment, while maintaining high quality services.
- Review funding for the State's three schools for the deaf.

*"We can no longer afford unnecessary expansions and duplications. When these new services are added, all of society pays the price in increased health insurance premiums."*

Senator  
George Daniel  
Yanceyville

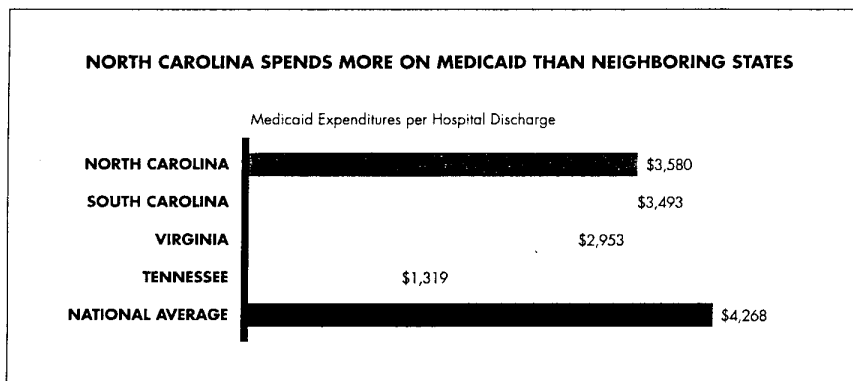


(EXHIBIT 14)

Source: Fiscal Research Division, North Carolina General Assembly

**RECOMMENDATION 9:** *Develop an aggressive program to control the growth of Medicaid costs.*

Medicaid pays for necessary health care services for those unable to afford them otherwise. But Medicaid costs are out of control, increasing by an average of 20% each year. The annual State Medicaid budget has grown from \$221 million in fiscal year 1987 to \$590 in fiscal year 1992 and is budgeted for \$740 million in fiscal year 1993. At the projected rate of increase, Medicaid will be a billion dollar item in the biennial budget that goes into effect July 1, 1994. Our expenditures for Medicaid are already the biggest single drain on our budget, and if the State does not take action soon to contain these costs, there will be no funds available to pay for other pressing needs.



(EXHIBIT 15) Source: Health Care Finance Administration, U.S. Department of Health and Human Services

Our Committee found that in many areas, the North Carolina Medicaid program has been more generous than other states' programs. This means that we have room to control the rate of increase in expenditures, through aggressive payment system reforms in the short term, and overall systemic reform over the long haul. We can keep every service available and reduce the increasing cost of providing those services by curtailing the proliferation of expensive medical care facilities, limiting the government's exposure to specific costs, and better leveraging our buying power in the health care marketplace. The potential savings from such actions amount to \$44 million in the first year, with additional savings of \$25-\$51 million requiring two years for implementation. We recommend that the General Assembly:

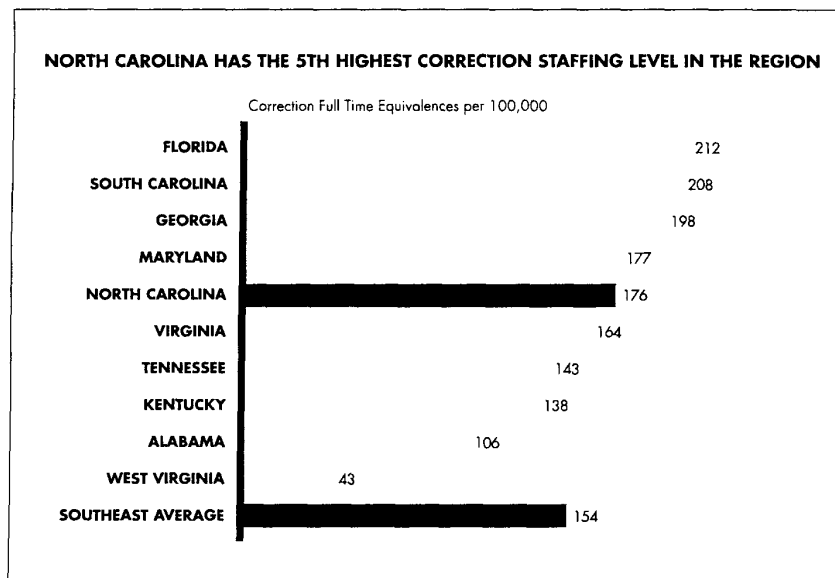
- Take short-term steps to aggressively control expenditures for Medicaid services by changing the reimbursement system in the following areas: inpatient hospital, outpatient hospital, nursing facilities, intermediate care facilities for the mentally retarded and prescription drugs.

Our expenditures for Medicaid are already the biggest single drain on our budget, and if the State does not take action soon to contain these costs, there will be no funds available to pay for other pressing needs.

- Change the Certificate of Need process, which authorizes construction of medical facilities in the State, to more effectively control health care expenditures. This includes implementing a moratorium on construction of Intermediate Care Facilities for the Mentally Retarded (ICF-MR) beds, expanding the geographic areas used to develop projections of need, managing the proliferation of expensive medical equipment, and increasing application fees to enable the Certificate of Need program to become self-sufficient.
- Implement managed care—in which the primary provider assumes total health care responsibility for the insured person—on a statewide basis. Expand Carolina Access, a Medicaid program similar to managed care, to encompass all non-institutionalized recipients and include elements of risk-sharing for all services for physicians and hospitals.

**RECOMMENDATION 10:** *Overhaul the State's correction system to streamline costs.*

In the long term, investment in our educational system and other support systems are as important a part of solving our corrections problems as the prison walls. For now, continued investment in a strong correction system is



(EXHIBIT 16)

Source: Municipal Analysis Services, Inc.

*"They may put them in prison for two years and they may be out in eight days, but there are more people going to prison for less amounts of time for lesser offenses."*

Representative  
Bob Hensley, Jr.  
Raleigh

essential. Our Committee in no way seeks to diminish the amount of protection the State offers, but believes the State must look for opportunities to streamline the high cost of providing these services.

North Carolina's large number of small prisons has created a labor-intensive, expensive correction system. Other states manage their correctional facilities with fewer staff. The cost of constructing a new prison bed is estimated at roughly \$25,000, while operating costs for imprisoning an offender are approximately \$20,000 a year. There were 21,000 inmates at the end of 1992; some projections indicate that this number could double over the next 10 years. Our Committee considers this an area where innovative, strategic thinking needs to be done. We recommend that the General Assembly:

- Reconfigure the State's prison system for cost-effectiveness, appropriate security levels and closer geographic proximity. Consolidating 30 small, inefficient prisons and building four larger prisons would pay for itself in the first five years.
- Downsize the State correction system's area office network by consolidating the six area offices in the system, redefining area office boundaries, eliminating unnecessary administrative functions and reducing area office staffing.
- Develop strategies to reduce staff-to-inmate ratios to at least the average for other states.
- Consolidate Community Correction Programs to reduce redundancy and focus the State's resources on innovative alternatives.

**We can no longer afford to waste our limited resources in duplicative ways if we are to ensure the safe streets, safe neighborhoods and safe communities that preserve our high quality of life.**

**RECOMMENDATION 11:** *Focus our law enforcement resources to better protect our citizens and reduce costs.*

North Carolina has historically invested heavily in law enforcement. This investment has resulted in a proliferation of law enforcement resources, with more staff and more expenditures than other states. In spite of our investments, great needs still exist. We can no longer afford to waste our limited resources in duplicative ways if we are to ensure the safe streets, safe neighborhoods and safe communities that preserve our high quality of life.

We can improve our protection of the State's citizens and reduce costs by directing the services of our uniformed officers to critical functions and "civilianizing" existing positions, such as scales mechanic or parking control supervisor, that do not require sworn law enforcement officer status. To take full advantage of our existing resources, we must integrate similar functions now located in different agencies.

In particular, the Government Performance Audit Committee has focused our attention on law enforcement personnel policies and practices to address inequities in the system. For example, some uniformed officers can retire with up to 95% of their base income—more than judicial branch and far beyond executive branch retirement benefits. The State Highway Patrol is

the only agency that receives an automatic 5% annual merit pay increase. We recommend that the General Assembly:

- Encourage more active consideration of the use of civilians in filling positions that do not require a sworn law enforcement officer to perform the essential duties of the job. Develop a statewide policy for such a shift, and apply these policies and procedures consistently across all State agencies. Civilianize positions as they become vacant to minimize hardship on current employees.
- Civilianize the Weight and Motor Carriers function in the Division of Motor Vehicles and merge with the Highway Patrol to achieve the same services at lower cost.
- Place the Alcohol Law Enforcement Division's regulatory responsibilities under the Alcohol Beverage Commission and the law enforcement responsibilities under the State Bureau of Investigation to achieve economies of scale. Fund local law enforcement from profits of ABC sales, rather than the General Fund.
- Set a "cap" on the combined benefits from current retirement programs available to law enforcement personnel.
- Repeal the automatic 5% merit raise for State Highway Patrol officers and award merit pay subject to the same personnel and budget constraints of other State employees.

**RECOMMENDATION 12:** *Protect our investment in the State's transportation infrastructure.*

North Carolina has more State-managed road miles than any other state. We can no longer afford to pave the State the way we have in the past. We must be more judicious in the way we select highway priorities, recognizing that we have several non-urban areas where additional transportation investments must be made if they are to join the State's economic development cycle.

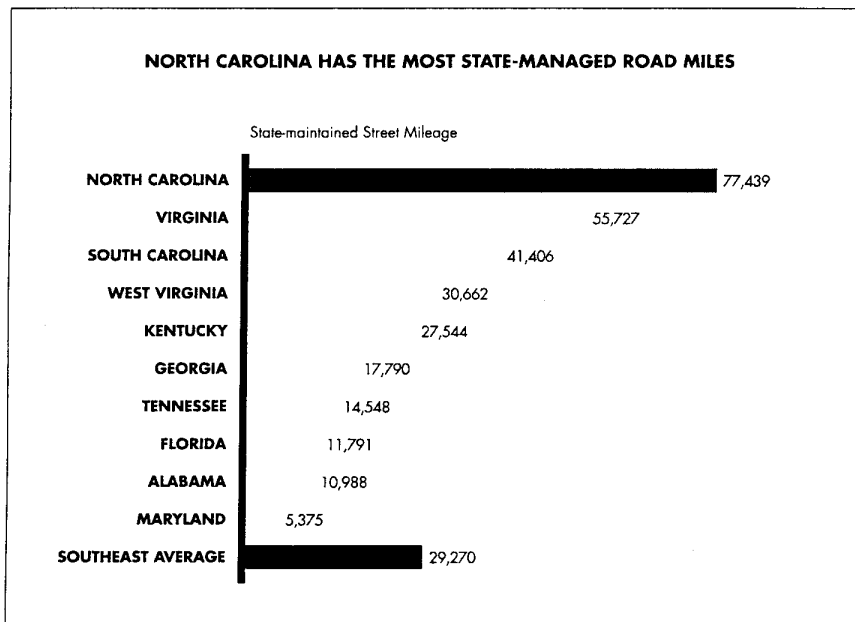
Equally important is the ticking time bomb of infrastructure. While the State has a first class program for building the infrastructure—the Highway Trust Fund—there is no comparable program for maintaining it. We now have a \$300 million backlog in highway maintenance and are annually underfunding highway needs by \$50 million. The experience of other states shows that the cost of rebuilding roads that have not been maintained *far exceeds* the cost of investing in regular maintenance. The Government Performance Audit Committee considers highway maintenance a wise investment with a known return. We recommend that the General Assembly:

*"The highway maintenance program today is being short-changed; it is not being funded sufficiently for adequate maintenance on the highway."*

James E.  
Harrington  
Raleigh



- Increase the State's maintenance program to address the growing backlog.
- Expand private sector contracting in routine maintenance by \$20 million a year and secondary road construction by \$26-50 million a year.
- Reevaluate periodically the structure and funding of the Highway Construction Program to determine if it is continuing to meet the needs of the State.



(EXHIBIT 17)

Source: Federal Highway Administration, U.S. Department of Transportation

## A RESULTS-ORIENTED GOVERNMENT

Making government accountable for results involves the nuts and bolts of running the State. This is the most inwardly focused area of our report, and perhaps the least glamorous. On the other hand, we believe the recommendations included here are the most pervasive and lasting ones the Government Performance Audit Committee is making.

Why? Because today's practices aren't meeting the State's strategic business management needs. Only by changing the way we do things internally will we change external results and strengthen the quality of services the State provides.

We need to think—and work—in new ways. This means a major change in the culture of State government:

**We need to think—and work—in new ways. This means a major change in the culture of State government.**

- From bureaucratic to entrepreneurial
- From compliance to service
- From prescription to prevention
- From adequacy to excellence

Such changes start with a shift of focus from input-oriented to results-oriented. Traditionally, government has placed a far greater emphasis on *inputs* (what you are going to do) than on *results* (what you actually accomplish).

The old way—which focused on looking at how much the State is spending, the categories and line items within which it is spending, the chart of accounts—has led to a six-volume, 3,500-page, 10,000-line item budget document. The system no longer provides legislators making budget decisions, managers managing public funds or taxpayers footing the bill with the information they need about how well State funds are being used.

Today the emphasis in State government is on control, to prevent abuses of the system. In an era of rapid change, control results in gridlock: State agencies that do not have the flexibility to adapt and get services to the customers who need them the most. Our Committee strongly believes that we need to focus government and its \$13 billion annual expenditures on what it is the State is trying to accomplish—on results.

Key executives, managers and supervisors must be empowered—and they in turn must empower others—to make decisions about how best to achieve the State's objectives, measure their performance against these objectives, and be held accountable for the results. For instance, if our goal is to reduce infant mortality, the emphasis should be on giving executive branch employees responsibility and then holding them accountable for reducing infant deaths, not defending how many prenatal screening clinics we have.

One way to do this is install a results-oriented budgeting process, which will enable legislators to focus on the intended outcome of the expenditure against the explicit result, rather than on the 10,000 line items. This strategy was considered so important that it was the single recommendation our Committee sent to the executive branch for consideration midway through our study.

In response, the executive branch has implemented a pilot test of results-oriented budgeting in two areas during the 1993 legislative session: environmental programs and health programs. These areas will present their 1993-94 budget requests to the General Assembly in both the standard format and the new way, to demonstrate its potential.

Making this process work effectively will require other related changes. First,

*"The first prerequisite is really being clear about what government programs are supposed to accomplish."*

Alice M. Rivlin  
Deputy Director,  
White House  
Office of  
Management and  
Budget

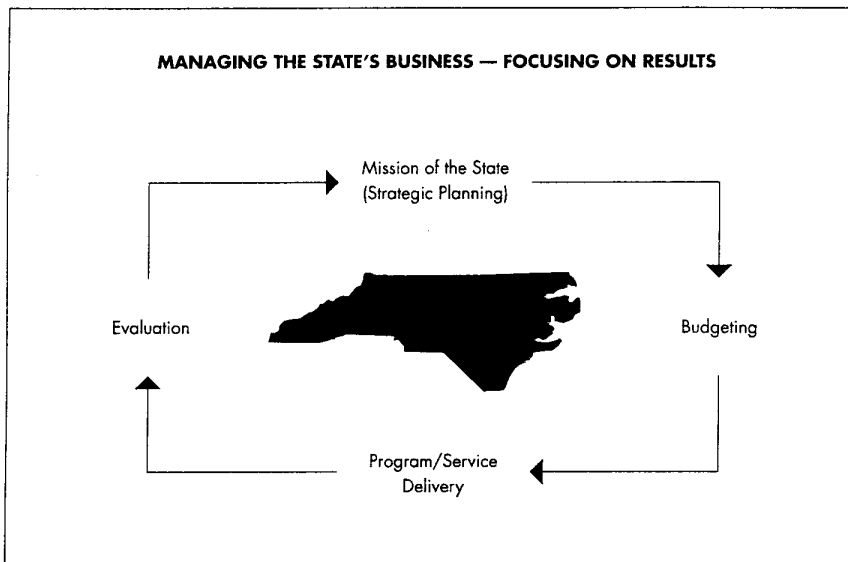
*"The least amount of regulation we can have, without affecting our quality of life, the better off we'll be. That's the bottom line."*

Walter R. Davis  
Kitty Hawk

if we want to focus on results, we have to put similar programs together. Our Committee determined that there are about 40 economic development programs in different agencies of State government and 13 separate uniformed officers corps in corrections and law enforcement. Several of these agencies report to different committees of the General Assembly.

If we are to expect our legislators and the public to understand what the dollars are intended to purchase under different categories of expenditures, then all of these areas need to be considered together. It is essential that the State create explicit linkages between similar programs to achieve the expected results of supporting this new budgeting process and, more importantly, to provide better services to our customers, the citizens of North Carolina.

**Our employees must realize that ultimately they will be evaluated by their customers—the citizens and taxpayers of North Carolina.**



(EXHIBIT 18)

Source: Clark Data

Second, to reap useful benefits from results-oriented budgeting, we need to tie the proposed budget process to a strategic planning system managed by the Governor, as chief executive officer, and the director of the budget. The Basic Education Program and the Highway Trust Funds road-building program are two good examples of substantial State commitments to long-range programs, but even these efforts are not tied to specific program outcomes nor evaluated on a regular basis. Careful planning on both the program and statewide levels will enable us to anticipate the future and respond with appropriate services.

And there is a third factor in all of this: the need to establish performance measures that document direct accountability for results to the lowest decision-making level in the organization. Our employees must realize that

*"We sit down every session and we are told 'we need more money for salaries, we need more money for everything,' and usually we give them more money. I am not satisfied that we know exactly what it is producing."*

Representative  
Martin L. Nesbitt  
Asheville

ultimately they will be evaluated by their customers—the citizens and taxpayers of North Carolina. Like all good customers today, we demand not just a higher level of service and performance, but the attention and kindness that recognize our worth.

We do not expect such a transition to be easy. However, the Government Performance Audit Committee believes the following actions will take us in the right direction:

**RECOMMENDATION 13:** *Realign governance and oversight structures to better leverage available resources.*

The Government Performance Audit Committee has found several instances throughout State government where well-intended legislative and executive branch action has resulted in the formation of similar programs providing similar functions in different agencies. Where practical, the Committee has recommended consolidations that can reduce fragmentation, improve service delivery, eliminate duplication and reduce costs.

However, effective use of State resources also requires us to develop new models for program delivery. The State can no longer afford the barriers that traditional government structures create. We need new governance structures that will bridge the gaps among existing programs and enhance program delivery. We recommend that the General Assembly:

- Establish an Education Cabinet to oversee the entire continuum of education, from early childhood to post-doctoral and continuing, lifelong education. The Cabinet should be chaired by the Governor and include the chief executive officers of the State's public education, community college and university systems.
- Create an Economic Development Council with authority to lead planning efforts, recommend policy and recommend allocation of funds for the State's economic development. Clarify the role of the Department of Commerce as the lead agency for economic development in State government, with direct responsibility to coordinate other State initiatives, develop strategic planning and policy, and evaluate results.
- Create an Office of Health Care in the Governor's Office to coordinate State health care services. The new office should develop approaches that allow the State to act as a single purchaser of health care, better negotiate costs and streamline health care administration.
- Restructure governance over information technology and telecommunications. Establish an Information Resource Management Commission with broad policy powers over information technology

*"We do not need more government or less government, we need better government. To be more precise, we need better governance."*

David Osborne  
and Ted Gaebler  
*Reinventing  
Government*